

INTRODUCTION

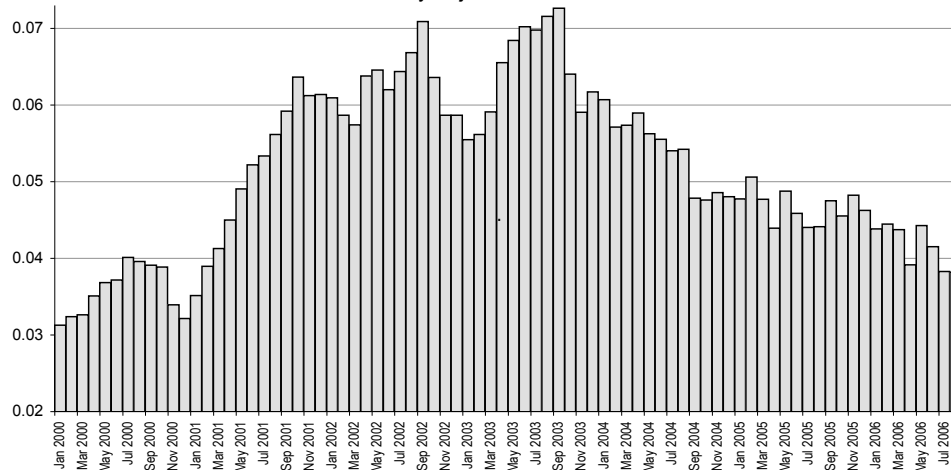
Robust growth continues after a four-year economic slowdown in King County. While income and employment changes remain short of the rapid growth of the late 1990s, the marked improvement in local conditions reflects a return to equilibrium. Since mid-2000, the region has weathered a series of setbacks, punctuated by the dramatic collapse in equity market valuations, the September 11, 2001 terrorist attacks, myriad accounting scandals, and the buildup and continued aftermath of war in Afghanistan and Iraq. Halting recovery has now given way to unmistakable growth, but the improvement only belies the magnitude and duration of the 2001 recession.

For the second consecutive year the county is experiencing sustained seasonally adjusted unemployment of less than five percent, returning to pre-2001 levels. After three years of fitful growth, local business activity surged in 2005. The last nine months have shown continued strength despite the absence of strong expansion in national markets. Having finally broken the cycle of improvement (such as in the second half of 2003) followed by stalled growth (as in the second quarter of 2004), the national economy is now increasingly threatened by heightened energy costs.

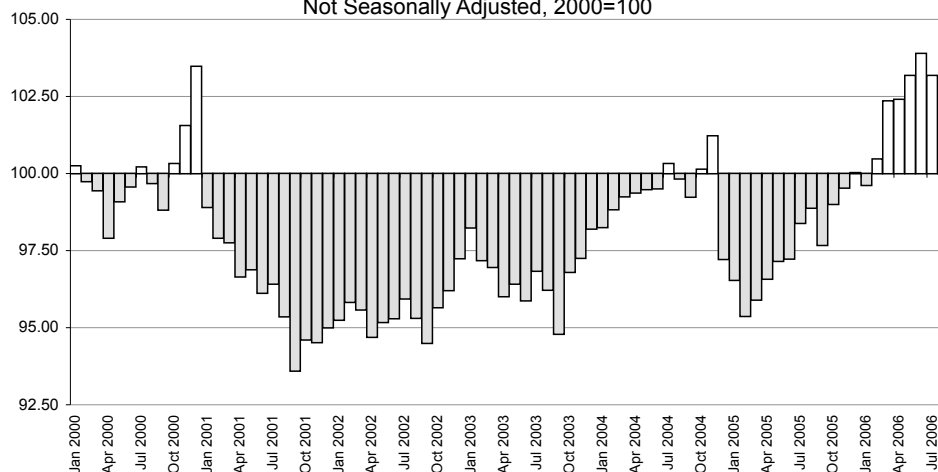
For 2007, the King County Office of Management and Budget anticipates slower national growth, but steady growth in the regional economy. This forecast, developed by surveying local economists, published state and national forecasts, and county econometric models, is the basis for 2007 revenue and expenditure projections. Initial estimates of 2008 and 2009 revenues and expenditures are also prepared from this forecast for the out-year current expense subfund financial plan.

King County Unemployment Rate

Seasonally Adjusted, 2000-Current

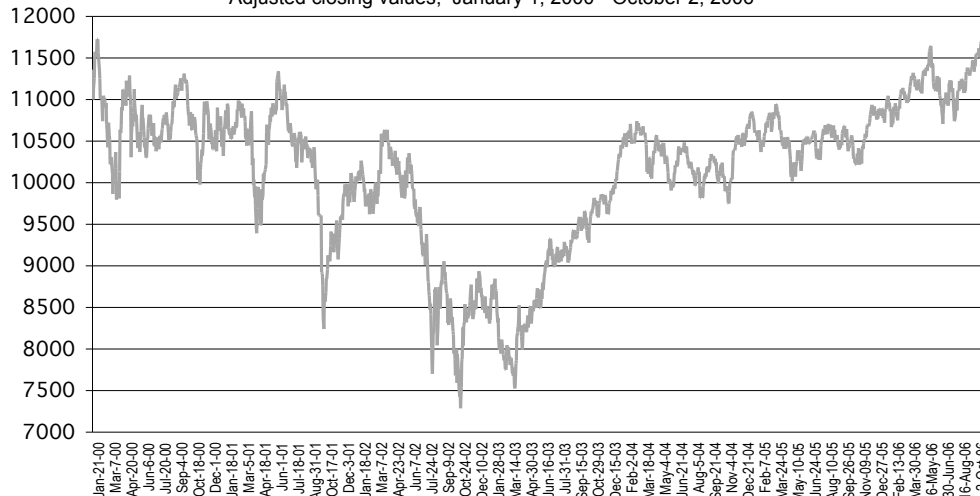
**King County Total Employment**

Not Seasonally Adjusted, 2000=100

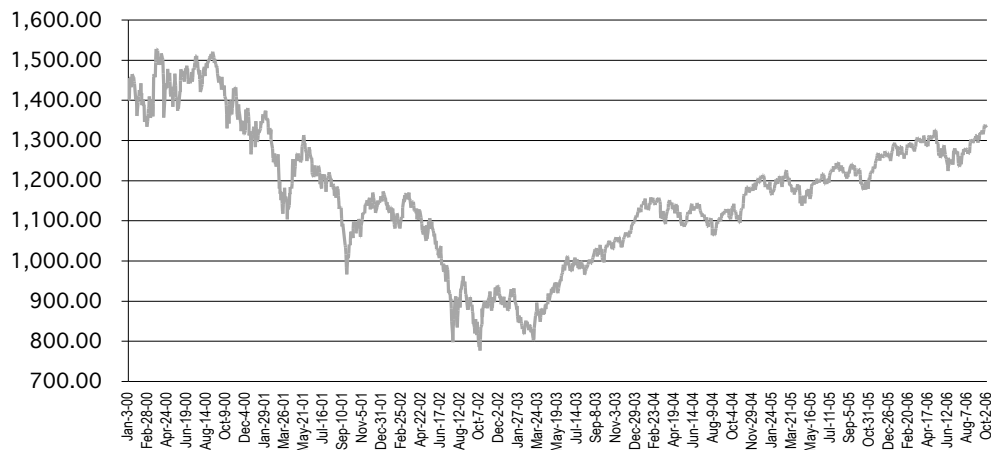


Dow Jones Industrial Average

Adjusted closing values, January 1, 2000 - October 2, 2006

**Standard and Poor's 500 Index**

Adjusted closing values, January 1, 2000 - October 2, 2006

**REVIEW OF ECONOMIC CONDITIONS**

Statistically, the national recession may have ended in November 2001. The jobless recovery that followed lasted well into 2004, generally resulting in more dislocation than the actual recession.

Steady labor market improvement comes after setting a 22-year seasonally-adjusted high unemployment rate of 7.26 percent in September 2003.¹ Adjusted for education status, age composition, and other demographics, peak unemployment from the 2001 recession rivaled the early 1970s for highest joblessness since the great depression.

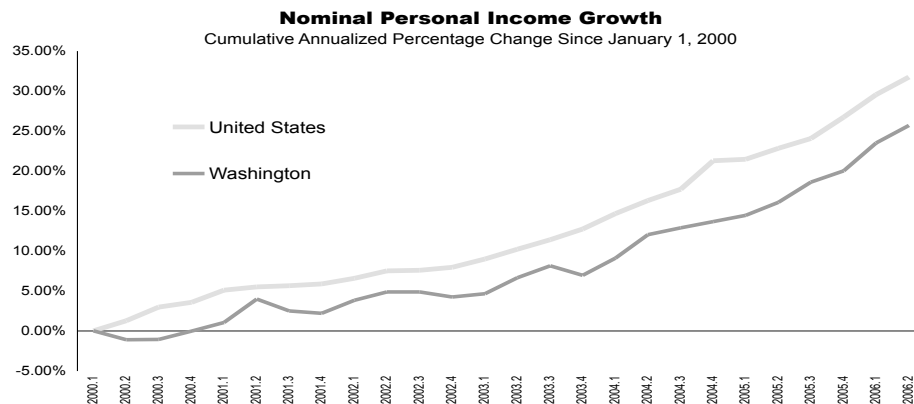
Since mid-2005, total employment in King County has surpassed 1 million, returning to pre-2001 levels. Accounting for natural workforce increases from population growth to new college graduates, labor participation statistics remain low given the overall business cycle. Outside of a few high demand sectors like construction, jobs are considerably more scarce than at almost any point since the mid-1990s. The apparent

¹ Washington Department of Labor and Industries, Labor Market and Economic Analysis and King County Office of Management and Budget seasonal adjustment model.

negative correlation between labor force shares and educational attainment could come to even eclipse the twenty-five year decline in absolute unemployment rates.²

Inflation-adjusted median household income declined in 2005, after no change in 2004 from 2003. The upswing in inflation associated with Hurricane Katrina explains 2005's decline, but not the stagnancy at this point in the business cycle. Real median household income is 4.4 percent below peak 1999 levels.³ Sluggish household income growth coincides with sustained productivity increases – productivity per worker hour is up nearly 15 percent since 2000.⁴ Wage trends, however, reflect slower nominal growth that has lagged inflation.

Contemporary research has almost canonically demonstrated that when labor supply exceeds demand, worker bargaining power is diminished.⁵ The conundrum in recent data lies in the apparent coincident decline of both wages and unemployment. The recent decline in the rate of unemployment has been driven less by job growth than by the relative decline in the total labor force – the proportion of the population seeking or holding jobs. Since January 2004, when employment unambiguously emerged from the 2001 recession, total non-farm payrolls have expanded at 187,000 net new jobs per month. This number is reasonable in itself, if tepid compared to previous recoveries (36 percent lower than 1993-1994 recovery).



In August 2005, labor force participation rose to 66.2 percent, but it remains lower than the pre-recession peak of 67.1 percent in March 2001.⁶ There is little prospect of returning to 2000-2001 levels in the near future – over the last year, the rate has improved on average by only three basis points per month. An adjusted unemployment rate that considered those that have abandoned their job searches would be nearly three points higher than current published statistics. Analysis by the Economic Policy Institute suggests that only net job creation of in excess of 300,000 per month is needed to address substantial labor slack masked by low participation rates.

In contrast to the labor market situation, the broader economy is exhibiting marked improvement. Uneven Gross Domestic Product growth can be more a consequence of accounting subtleties rather than larger economic trends, but it has shown steadier movement in the last year.

In late September, the Department of Commerce's second quarter estimate of GDP growth was 2.6 percent, 0.7 percent lower than the same period in both 2004 and 2005, and significantly less than the annual growth rates of 3.9 percent and 3.2 percent in 2004 and 2005, respectively. While some of these lackluster numbers

² The Impact of Young Workers on the Aggregate Labor Market (2001) *Quarterly Journal of Economics*, 116: 969-1007.

³ US Department of Commerce, Bureau of the Census.

⁴ US Department of Labor, Bureau of Labor Statistics.

⁵ David G. Blanchflower & Andrew J. Oswald, 2005. "The Wage Curve Reloaded," NBER Working Papers 11338, National Bureau of Economic Research.

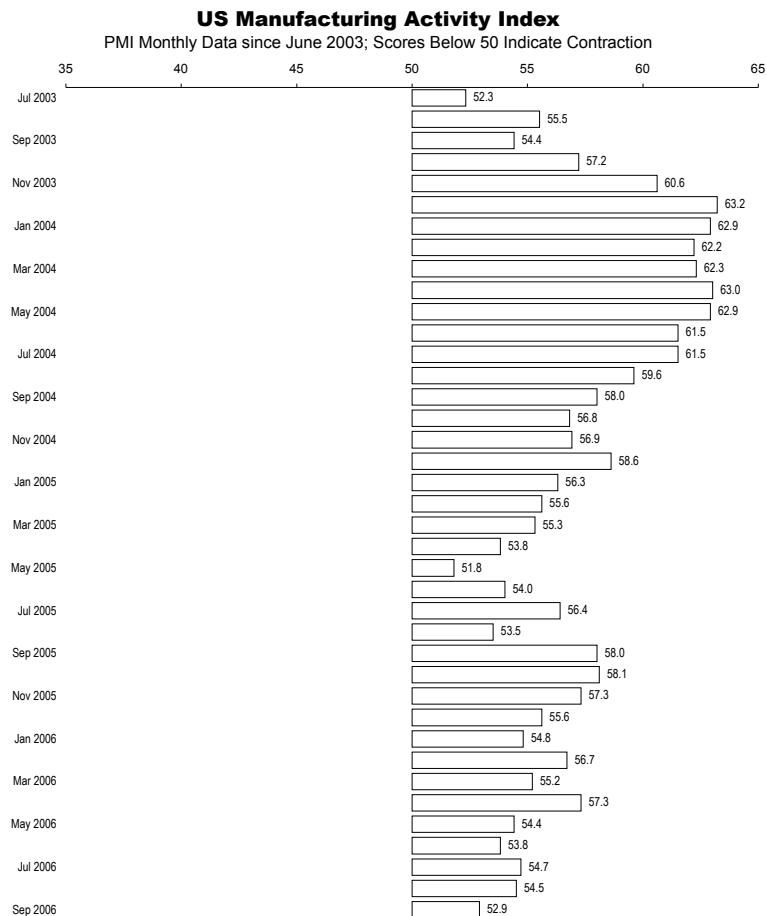
⁶ US Department of Labor, Bureau of Labor Statistics.

can be explained as accounting effects from meteoric growth in the first quarter of 5.6 percent, a closer examination of second quarter data is nonetheless cause for concern. The GDP slowdown is exceptionally widespread, with recent economic pillars – consumer spending, private and residential investment, and government expenditures, all growing at a rate less than overall GDP.

The primary cause for concern has been consumer spending. Automobile and durable good purchases have shown substantial weakness this year and are unlikely to return to any approximation of peak levels in the foreseeable future. Softening consumer demand appears to have also undermined the other linchpin of the recovery: housing. Residential construction and sales of both new and existing homes show unmistakable signs of decline from the peak of 2004-2005. We continue to view an increase in long-term interest rates as inevitable – and with them, mortgage rates – conditions that will severely undermine the housing market in the next two years.

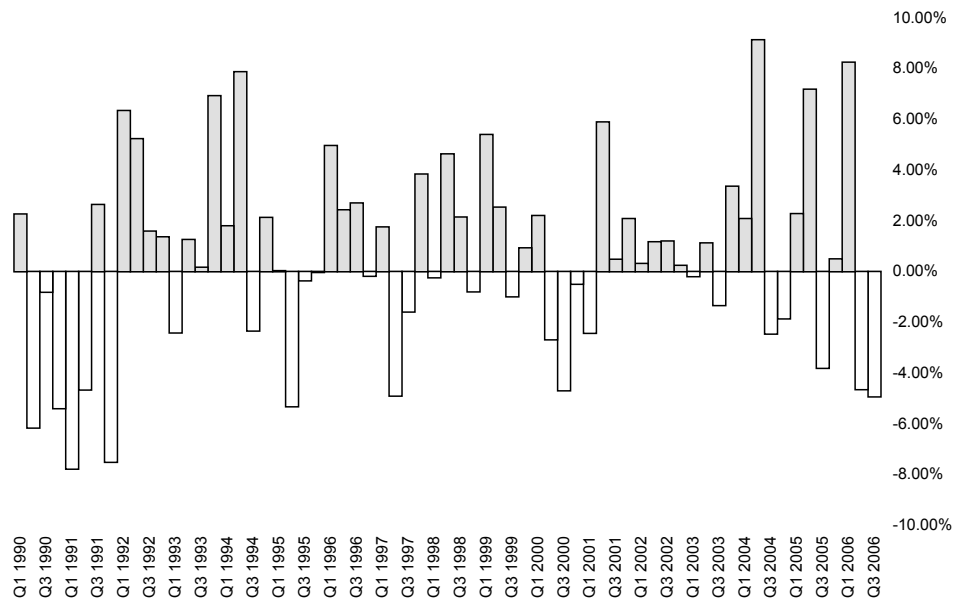
Perhaps the most immediate threat to the recovery lies in energy prices. After peaking at \$80 per barrel earlier this year, highly volatile commodity trading in light, sweet crude oil passed the early September anniversary of Hurricane Katrina in full retreat. Prices have subsequently fallen below \$60 per barrel, and there is reasonable hope that they will remain there over the coming year. Four years of concerns about supply that have rattled future markets should not be dismissed, however. Any production disturbance – both potential and realized – will clearly influence a hypersensitive market. The fundamental problem, however, is one of demand, as oil consumption expands in developing countries, especially China. Excess production capacity has slipped precariously, and there is simply no margin to cover major supply disruptions.

The impact of receding crude oil prices has been slow to show up in recent retail gasoline prices, but the trend is the same. There continues to be a premium associated with limited refinery capacity, highlighted by disruptions from gulf coast storms. But it also appears to be a simple reflection of significant market power. We will closely watch seasonal changes like winter heating oil production for effects on gasoline prices, but there is hope that higher refinery inventories will reduce profit-taking.



US Private Residential Construction

Seasonally Adjusted Quarterly Change, Completed Units



Highly inelastic demand for oil requires substantial price increases to bring the market into equilibrium, which has in turn emboldened speculators. Sustained crude oil prices over \$40 per barrel will increase inflation; prices in excess of \$50 per barrel for any sustained period of time will undermine the short-term prospect for economic growth. The economy's ability to weather current prices approaching \$80 earlier this year was remarkable and unprecedented, but may belie less visible structural problems. In the long run, insufficient income growth and high consumer debt levels present a much larger danger to the economy than even another \$20 per barrel surge in oil prices.

Locally, the impact of the September 11th terrorist attacks is fading. After dropping 6.4 percent between 2000 and 2002, total passenger traffic at Seattle-Tacoma International Airport has completely rebounded. After the first eight months of 2006, traffic is running 5.1 percent above 2000 levels, on track to set a new record.⁷ Hotel occupancy rates, buoyed by a resumption in convention activity and burgeoning cruise ship bookings, are at unprecedented levels. Vacancy rates near 40 percent in 2002 and 2003 have fallen to 13.1 percent over the first six months of 2006, while discounting has abated and rates have stabilized.⁸

To be sure, problems remain. Despite low inflation, real per capita personal income is still below 2000 levels. In both 2001 and 2002, Real Per Capita Personal Income declined, for a cumulative change of negative 1.9 percent, offset only slightly by anemic growth since. Income levels are unlikely to exceed 2000 levels until 2006. More broadly, the most recent data indicate that Real Per Capita Gross State Product fell 1.6 percent in 2001.⁹ Bankruptcy filings in Western Washington have nearly doubled since the start of 2000, although the surge at the end of 2005 is explained largely by bankruptcy law changes recently enacted by Congress.¹⁰

Although the entire state has suffered during the downturn, the worst effects were focused on the Puget Sound region, and King County in particular. For the last two years, however, non-farm employment growth in King County has actually outpaced the rest of the state, 4.8 percent to 3.6 percent.¹¹

⁷ Port of Seattle, *Airport Activity Report*.

⁸ Wolfgang Rood Hospitality Consulting.

⁹ US Department of Commerce, Bureau of Economic Analysis.

¹⁰ American Bankruptcy Institute.

¹¹ Washington State Employment Security Department.

The increase in employment has been unevenly distributed. After declining by 15.5 percent from 2002 to 2004, manufacturing employment is up 2.7 percent since July 2004. The 2002-2003 decline occurred entirely in non-aerospace manufacturing, while the bulk of the 2004 decline was in aerospace and parts manufacturing. Growth in 2005 has been fueled by a turnaround in aerospace and parts, up 7.0 percent. By far the largest payroll growth has occurred in construction – up 7.9 percent since last July after growing 6.9 percent the year before. Other major sectors – health care, finance, insurance and real estate, and government employment – recorded between 1.5 and 1.9 percent growth.

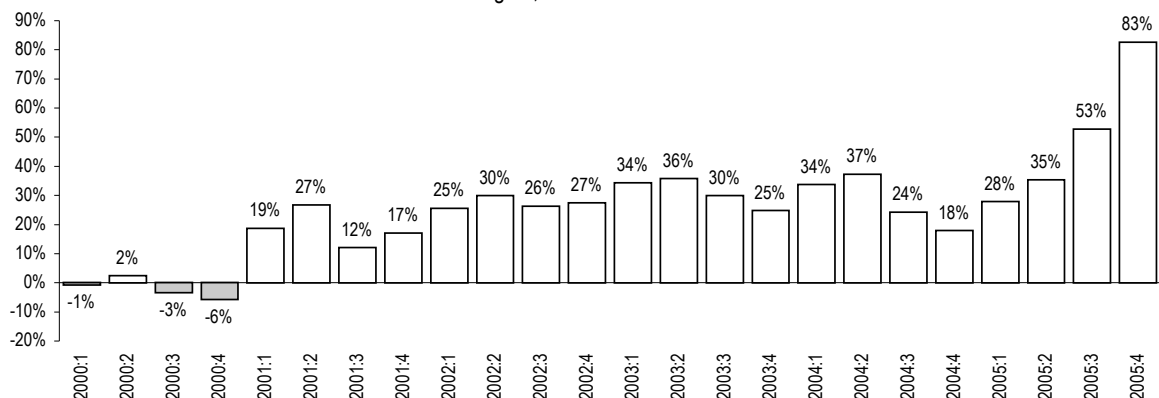
Although health care employment has been strong, there are signs of problems ahead. Medical cost inflation, after abating in the mid-1990s, has returned to the growth rates of the late 1980s and early 1990s. Meanwhile the proportion of the population without health insurance has reached an all-time high in Washington State. The market for the direct purchase of insurance, which a decade ago covered 15 percent of Washington residents, now only serves 10.6 percent of the population.¹² Insurance is increasingly limited to employees of large companies and Medicare and Medicaid recipients.

Remarkable strength in residential real estate appears to be finally running its course. Sales in August were at near record levels, but by virtually every other measure – time on market, inventory, and number of competing offers – the market is cooling. We expect a dramatic fall in sales over the next 18 months.

The local market for commercial real estate has stabilized. The commercial office space vacancy rate for Seattle continues to decline, down to 9.8 percent versus 12.4 percent, 14.2 percent, and 16.2 percent in 2005, 2004, and 2003, respectively. Vacancies in Bellevue are down to just 5.7 percent. Across the region,

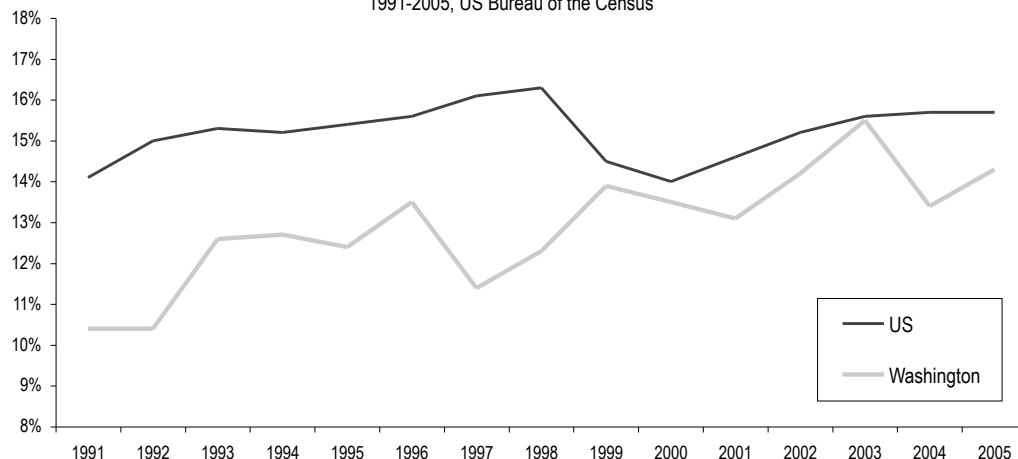
Quarterly Bankruptcy Filings: Cumulative Percentage Change

Western Washington, Growth Since First Quarter 2000



Percentage of Population without Health Insurance

1991-2005, US Bureau of the Census



¹² US Bureau of the Census.

total vacant office space has also fallen, from 12.1 million square feet in 2003 to 7.5 million square feet in the second quarter of 2006.¹³ Aside from completion of a handful of long-standing projects predating the recession, relatively few major office space projects are now underway. A substantial increase in commercial construction should occur in the next 18 months.

Economic Assumption Summary

Percentage Change from Preceding Year

	2001	2002	2003	2004	2005	2006	2007	2008	2009
King County									
Employment	-3.9%	-0.6%	-0.7%	1.4%	2.0%	2.7%	2.2%	2.1%	2.0%
Nominal Personal Income	1.7%	1.5%	2.0%	4.4%	5.9%	6.9%	6.6%	6.1%	5.8%
Housing Starts	-2.9%	32.9%	9.9%	5.8%	11.3%	-3.4%	-7.9%	-5.2%	1.6%
Population	1.1%	1.0%	0.3%	0.5%	1.5%	1.4%	1.2%	1.1%	1.1%
Consumer Price Index *	3.63%	1.94%	1.58%	1.25%	2.43%	5.18%	2.90%	2.90%	2.60%
COLA **	3.11%	2.32%	2.00%	2.03%	2.19%	4.66%	2.26%	2.70%	2.80%
Washington State									
Employment	-2.9%	1.7%	0.6%	1.7%	2.9%	2.4%	1.6%	1.5%	1.5%
Nominal Personal Income	2.6%	3.4%	3.5%	4.4%	4.9%	6.2%	6.5%	6.4%	6.4%
Housing Starts	-1.7%	4.8%	6.5%	15.0%	11.9%	-5.3%	-8.0%	-4.3%	1.4%
United States									
Employment	0.2%	-1.1%	-0.3%	1.1%	1.5%	1.3%	1.1%	1.1%	1.1%
Nominal Personal Income	3.3%	2.7%	3.3%	5.8%	6.5%	5.7%	5.6%	5.5%	5.5%
Housing Starts	2.0%	6.5%	8.2%	5.2%	6.1%	-9.0%	-8.1%	-2.4%	1.1%
Three-month Treasury Yield	-22.0%	-47.1%	-11.3%	34.0%	26.0%	12.8%	5.6%	-4.0%	-8.2%
Consumer Price Index	2.8%	1.6%	2.3%	2.7%	3.0%	3.4%	2.6%	2.7%	2.7%
Real GDP	0.3%	2.4%	2.7%	4.4%	3.5%	3.2%	3.0%	2.9%	2.9%

* Puget Sound region

** 90 percent of September-September Δ National CPI-W, minimum of 2.0 percent.

ECONOMIC FORECAST

Entering 2004, Wall Street prognosticators feared that a booming economy would force a rapid increase in interest rates, undermining equity markets. The stock market indeed stalled, but for the opposite reason. While the economy, at least as measured by Gross Domestic Product, has shown continued improvement, finally surpassing peak 2000 levels last month, it has not been enough to make up for lingering labor market concerns, or energy price volatility.

The Federal Reserve's long campaign to increase short-term interest rates was finally suspended this summer after 17 consecutive quarter percentage point increases to the federal funds target rate. During the time period, however, medium to long-term bond yields have actually fallen. Beyond soaring oil prices, or medical cost inflation, corporate balance sheets remain in excellent condition. Equity markets appear to be reflecting general concerns that the economy will slow, depressing earnings, rather than reacting to profitability prospects.

Clearly, continued hostilities in Iraq have also played a substantial role in unsettled financial markets. Given the almost certainty of a long-term US military deployment in Iraq for the foreseeable future, market conditions may not improve for some time.

Over time, longer duration bond yields should rise and their prices fall in response to the Federal Reserve's policy of tight short-term monetary policy. The inflationary pressure of higher energy prices may mandate

13 Commercial Space Online, Inc. survey data [<http://www.officespace.com>] and Cushman and Wakefield.

further Fed action, even if the economy falls well short of spectacular.

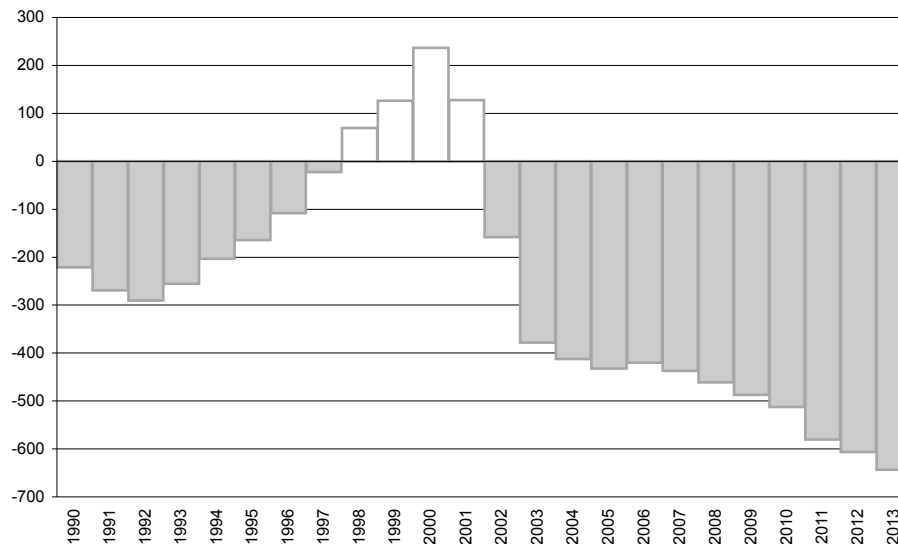
Steady growth is anticipated in 2007, with business investment continuing to offset slackening consumer demand. Modest employment growth should continue, but at a slower pace than 2005-2006. Residential real estate and construction, carried for four exceptional years by historically low long term interest rates, will return to more natural levels.

This forecast anticipates a further 25 basis point increase in the federal funds rate in late 2006 or early 2007. The Fed's stated preference for measured action suggests that no change is equally likely.

Strong regional employment growth should continue in 2007. Washington state recorded the highest increase nationally in personal income for both the second and fourth quarters of 2004, aided by the boost in payroll employment, strong 2003 equity market performance, and the start of Microsoft's unprecedented \$75 billion special dividend and stock buyback. Notwithstanding this one time move from Microsoft, the extraordinary personal income growth attained in the late 1990s is unlikely to ever reoccur. The engine of technology boom personal income growth was the stock option; both market performance and structural changes suggest little further boost to income levels in the foreseeable future.

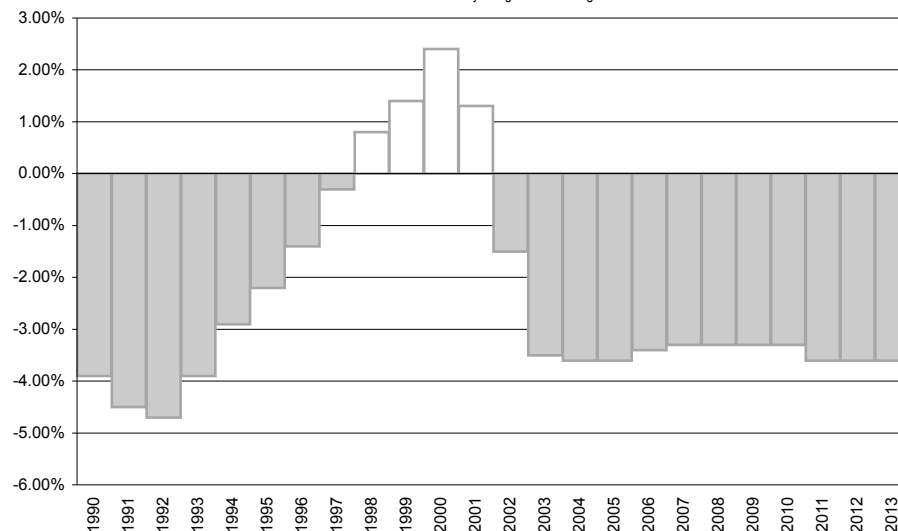
Nominal Federal Budget Deficit

Federal Fiscal Years, 1990-2004 Actuals, 2005-2013 Center on Budget and Policy Priorities Projection



Federal Budget Deficit as a Percentage of GDP

Federal Fiscal Years, 1990-2004 Actuals, 2005-2013 Center on Budget and Policy Priorities Projection
Gross Domestic Product forecast by Congressional Budget Office



ECONOMIC AND REVENUE FORECAST

Compensation changes at Microsoft and across the industry have significantly reduced the variability – and positive upside – of employee stock ownership. Based on both market performance and the employee compensation policies, this forecast assumes only a limited boost to personal income levels from option and bonus income. Broader market valuations should continue to generally trend higher along the path of the second and third quarters of 2005, with little effect, positive or negative, on local conditions.

After rising by over 3.6 percent in both 2000 and 2001, growth in the Puget Sound region Consumer Price Index was just 1.9 percent and 1.7 percent in 2002 and 2003, respectively, driven by unchanged housing costs. In the first half of 2005, however, the CPI was up more than 2.4 percent, before rising another 2.6 percent in the third quarter alone due to the aftermath of Hurricanes Katrina and Rita. The ensuing ebb and flow in energy prices has clearly distorted inflation statistics. Obviously local prices remain dependent on global energy prices, as well as movement in agricultural goods, but core inflation – excluding energy and food – in the Puget Sound region should remain quite low for the next two to three years.

All King County Funds Major Revenue Sources, 2000-2007

	2000 Adopted	2001 Adopted	2002 Adopted	2003 Adopted	2004 Adopted	2005 Adopted	2006 Adopted	2007 Proposed
TAXES	719,275,061	715,108,733	746,850,357	768,926,884	810,477,672	798,565,434	869,190,813	986,242,736
LICENSES & PERMITS	18,022,369	18,066,214	18,472,802	20,692,723	24,557,022	25,500,074	24,704,343	26,052,474
INTERGOVERNMENTAL REVENUE	26,756,947	26,756,947	35,829,205	-	-	-	-	-
FEDERAL GRANTS-DIRECT	28,650,976	30,207,497	32,359,967	36,380,703	36,012,144	36,048,518	32,801,397	32,737,215
FEDERAL SHARED REVENUES	678,590	688,182	699,091	1,069,761	1,080,642	1,094,152	1,322,569	1,266,931
FEDERAL GRANTS-INDIRECT	44,605,870	62,580,257	65,173,089	87,214,090	87,876,906	85,944,129	91,823,530	117,766,787
STATE GRANTS	99,941,683	103,615,392	100,044,636	122,000,403	131,252,575	50,890,604	50,763,770	35,808,862
STATE SHARED REVENUES	176,000	1,301,000	1,045,016	-	14,687	-	-	144,000
STATE ENTITLEMENTS	46,590,108	53,726,160	30,125,795	30,932,093	35,673,353	31,754,178	33,737,995	39,175,516
GRANTS FROM LOCAL UNITS	1,448,525	1,435,851	4,087,240	1,786,320	797,178	767,704	607,755	694,584
INTERGOVERNMENTAL PAYMENT	123,027,845	135,928,603	124,894,603	117,013,776	140,206,810	243,734,780	253,986,750	293,656,083
CHARGES FOR SERVICES	661,206,645	741,870,293	811,142,004	816,623,983	800,252,718	968,997,287	888,044,394	954,212,888
FINES & FORFEITS	7,069,093	7,232,871	7,537,213	7,803,918	9,119,402	8,290,176	7,317,592	7,313,236
STADIUM OPERATING REVENUES	221,000	-	-	-	150	-	-	-
OTHER	814,292,570	844,656,259	983,258,002	1,002,896,364	872,875,574	221,775,203	360,263,752	355,417,828
ALL FUNDS TOTAL	2,591,963,282	2,744,603,933	2,964,476,448	3,125,459,912	2,950,196,833	2,473,362,239	2,614,564,660	2,850,489,140

King County Current Expense Subfund Major Revenue Sources, 2000-2007

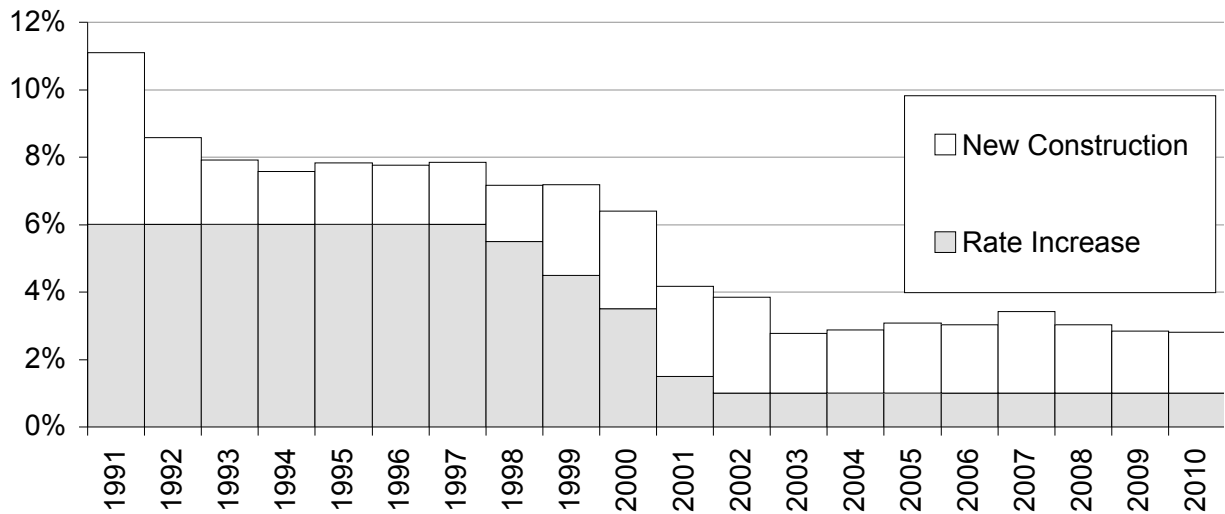
	2000 Adopted	2001 Adopted	2002 Adopted	2003 Adopted	2004 Adopted	2005 Adopted	2006 Adopted	2007 Proposed
TAXES	269,023,158	286,051,603	297,677,856	301,795,404	312,327,426	328,442,601	363,316,557	378,271,605
LICENSES & PERMITS	4,886,200	5,140,510	5,694,121	5,661,661	6,046,253	7,380,384	7,545,549	6,707,349
FEDERAL GRANTS-DIRECT	1,879,779	1,897,000	954,000	2,361,514	1,959,555	1,893,308	1,246,695	661,587
FEDERAL SHARED REVENUES	39,140	39,140	40,314	50,000	60,000	60,000	60,000	65,000
FEDERAL GRANTS-INDIRECT	4,328,755	5,900,152	4,817,776	6,546,708	6,734,208	7,951,779	8,129,559	8,128,755
STATE GRANTS	1,637,478	1,535,680	1,712,365	1,863,402	2,653,350	2,494,140	2,629,230	1,976,093
STATE SHARED REVENUES	176,000	176,000	181,280	-	-	-	-	-
STATE ENTITLEMENTS	1,297,505	1,554,125	1,383,967	1,424,505	1,407,505	6,559,055	6,993,579	6,979,749
GRANTS FROM LOCAL UNITS	14,000	14,000	2,614,420	-	-	-	-	-
INTERGOVERNMENTAL PAYMENT	52,656,427	55,772,028	56,733,723	52,269,056	56,001,858	53,164,198	55,723,169	62,689,896
CHARGES FOR SERVICES	76,991,057	80,258,079	82,639,182	89,547,761	84,746,544	89,803,336	96,915,226	102,446,848
FINES & FORFEITS	6,810,093	7,164,871	7,524,713	7,780,918	9,079,402	8,230,176	7,255,092	7,250,736
OTHER	25,658,174	25,082,650	19,903,635	18,503,578	23,280,217	13,879,035	33,443,713	40,680,450
CURRENT EXPENSE TOTAL	445,397,766	470,585,838	481,877,352	487,804,507	504,296,318	519,858,012	583,258,369	615,858,068

NOTE: Zero values for Intergovernmental and State Shared Revenues caused by phase-out of Title XIX and Motor Vehicle Excise Tax backfill funds, respectively.

While not yet affecting the economic forecast, the startling rise in the federal budget deficit, and deteriorating outlook for the coming decade could undermine long-term interest rates.

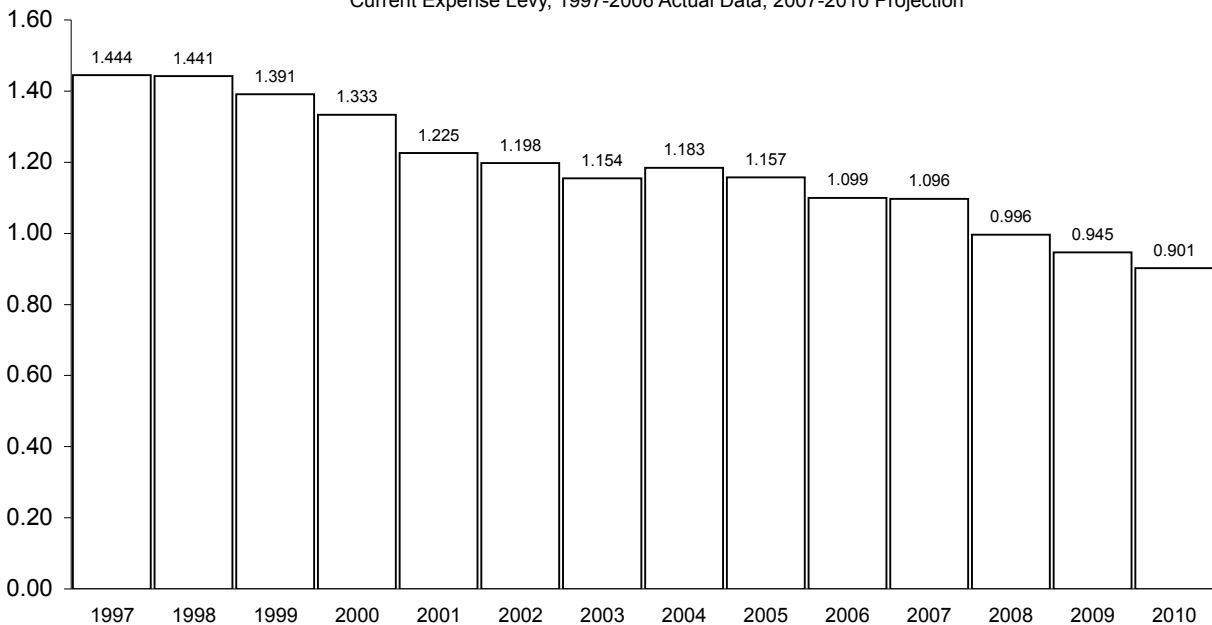
Property Tax Revenue Growth Components

Current Expense Subfund Levy, 1991-2006 Actual Data, 2007-2010 Projection



Property Tax Rate per \$1,000 of Assessed Valuation

Current Expense Levy, 1997-2006 Actual Data, 2007-2010 Projection



KING COUNTY REVENUES

Total revenue into the county exceeds \$2 billion dollars,¹⁴ which King County distributes into over 50 separate funds. The largest funds include those for transit, wastewater, surface water management, roads, and the county general fund. The largest revenue source is taxes, followed by charges for services; together they account for over half of all revenues. Taxes include three major property tax levies, three different sales tax assessments, and taxes on real estate transactions. Charges for services include both direct contracts, interfund payments, and other services provided by the county.

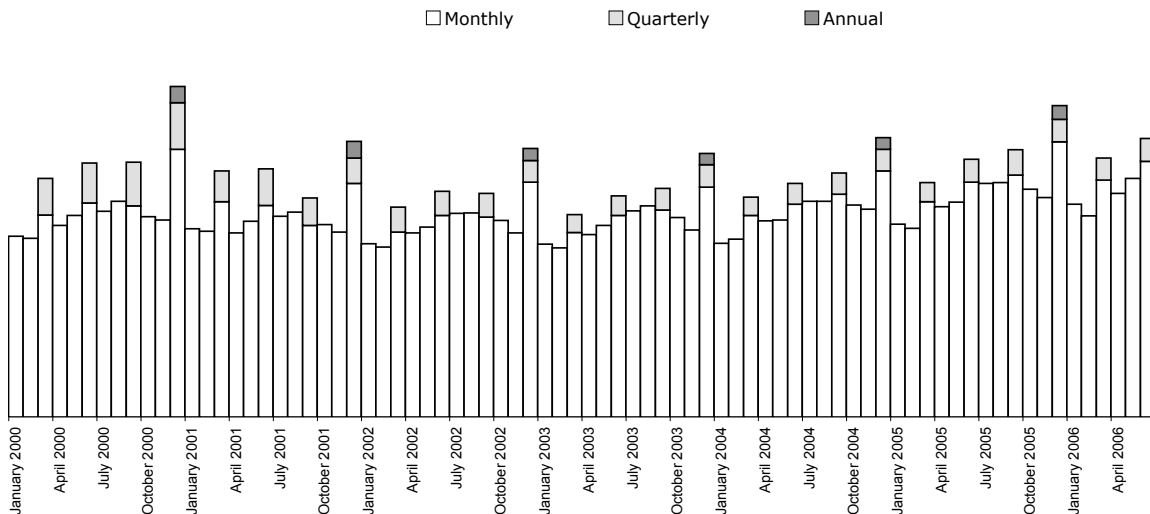
Taxes are the largest source of revenues to King County, accounting for 34.6 percent of total revenues and 61.4 percent of current expense subfund revenue. The major tax sources for the county include property taxes, sales and use taxes, hotel and motel taxes, and telephone excise taxes to support the enhanced-911 system. Total King County tax revenue is projected to be \$986.2 million in 2006, an increase of 13.5 percent from the adopted 2006 budget. These revenues support operating expenses, debt service, and some capital projects. Property taxes are the largest single tax source for the county, with a proposed levy of approximately \$479.3 million in 2007, including \$61.2 million collected for Emergency Medical Services, \$21.1 million of which is disbursed directly to the city of Seattle.

Taxable Retail Sales as a Proportion of Personal Income

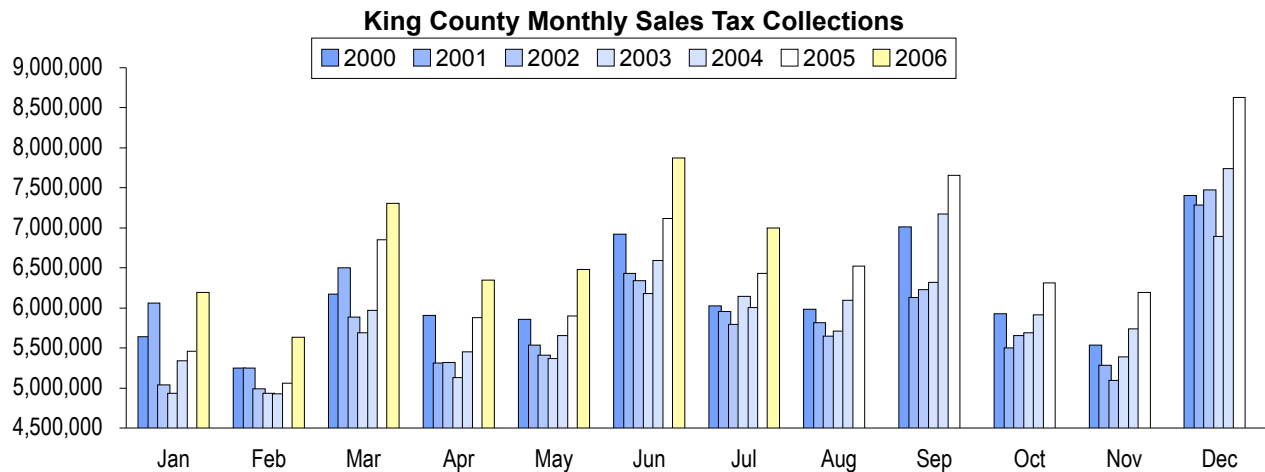
Inclusive of Use Tax payments, 1976-2005

**Sales Tax Collections by Reporting Frequency**

Local Option Revenue from Total King County Taxable Retail Sales, 2000-present



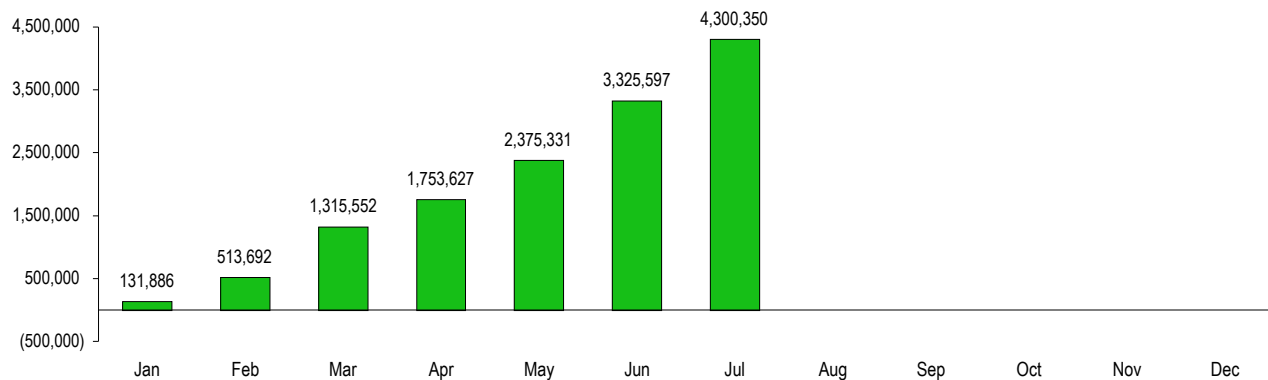
¹⁴ Interfund transfers, overhead rates, and other transactions duplicate some funds in the total revenue figure of \$3.9 billion.



Monthly Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2000	5,643,746	5,247,801	6,175,848	5,908,357	5,860,285	6,924,611	6,023,919	5,982,095	7,013,757	5,929,100	5,534,585	7,407,359
2001	6,062,931	5,251,282	6,503,883	5,313,379	5,533,086	6,431,011	5,958,177	5,815,392	6,127,737	5,499,377	5,280,576	7,282,334
2002	5,036,669	4,988,719	5,884,638	5,321,370	5,407,187	6,339,046	5,792,913	5,645,463	6,228,228	5,656,303	5,096,438	7,471,553
2003	4,931,954	4,932,061	5,687,259	5,127,102	5,369,033	6,181,570	6,144,228	5,708,742	6,321,403	5,689,569	5,385,641	6,894,946
2004	5,338,022	4,928,659	5,970,150	5,454,094	5,657,854	6,592,828	6,004,537	6,096,735	7,175,660	5,912,824	5,737,184	7,738,012
2005	5,460,791	5,062,926	6,851,104	5,880,954	5,900,685	7,114,004	6,431,306	6,525,074	7,655,107	6,310,149	6,194,818	8,628,252
2006	6,194,818	5,633,087	7,305,744	6,346,432	6,481,989	7,874,877	6,998,672					

Year-to-Date 2006 Variance from 2000-2001 Peak

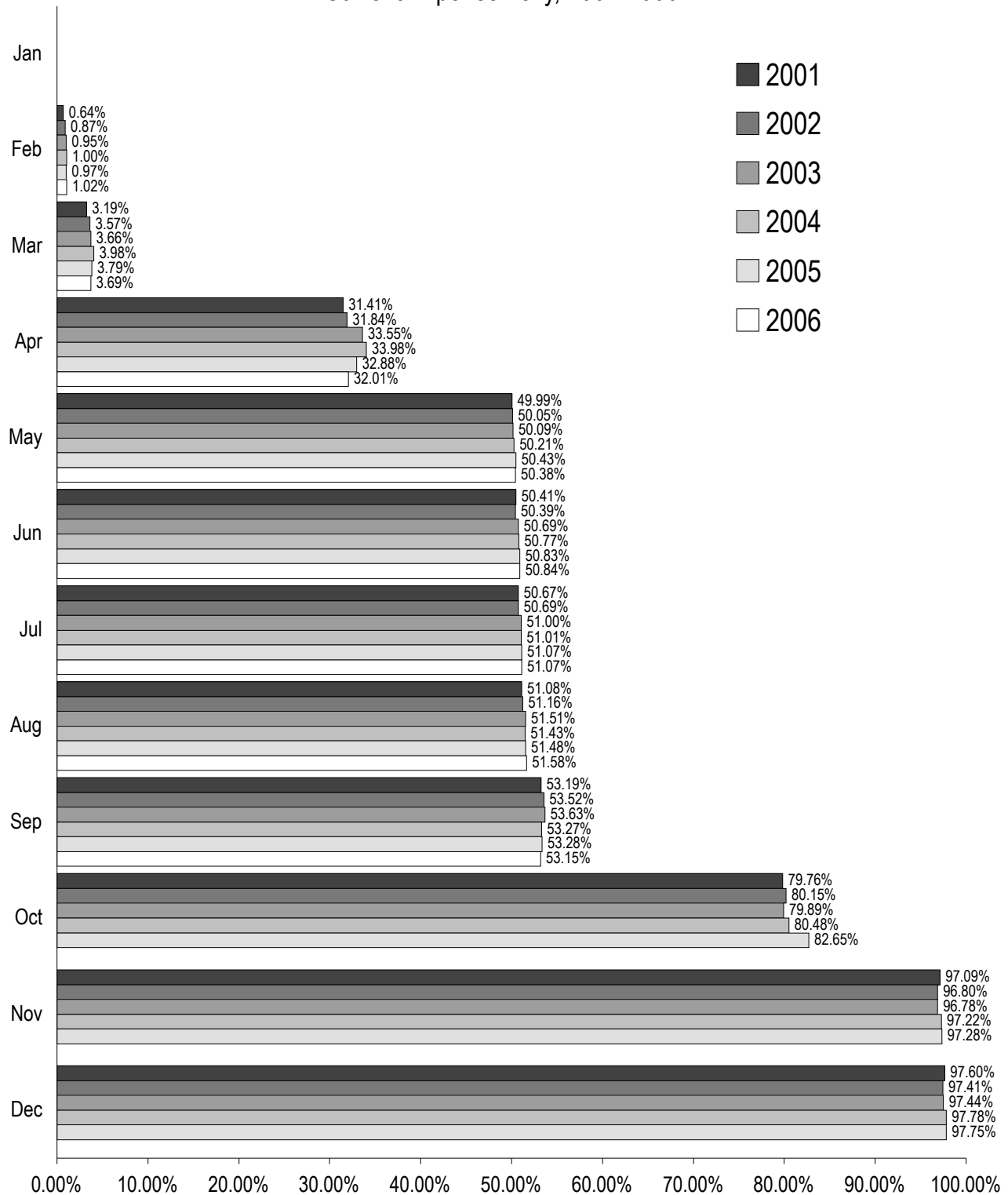


Year-to-Date Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2000	5,643,746	10,891,548	17,067,396	22,975,752	28,836,037	35,760,649	41,784,567	47,766,662	54,780,419	60,709,520	66,244,105	73,651,464
2001	6,062,931	11,314,213	17,818,096	23,131,476	28,664,562	35,095,573	41,053,750	46,869,143	52,996,879	58,496,256	63,776,832	71,059,166
2002	5,036,669	10,025,388	15,910,026	21,231,396	26,638,583	32,977,629	38,770,542	44,416,005	50,644,233	56,300,536	61,396,974	68,868,527
2003	4,931,954	9,864,015	15,551,273	20,678,376	26,047,409	32,228,980	38,373,208	44,081,950	50,403,353	56,092,922	61,478,563	68,373,509
2004	5,338,022	10,266,682	16,236,832	21,690,926	27,348,780	33,941,609	39,946,146	46,042,880	53,218,540	59,131,364	64,868,548	72,606,560
2005	5,460,791	10,523,717	17,374,821	23,255,775	29,156,460	36,270,464	42,701,770	49,226,844	56,881,951	63,192,100	69,386,917	78,015,169
2006	6,194,818	11,827,905	19,133,648	25,480,080	31,962,069	39,836,946	46,835,618					

* Data presented are total local option sales tax collections less Department of Revenue 1 percent administration fee. 90.4 percent of County sales tax receipts are deposited in the current expense fund. The remainder are dedicated to the Sales Tax Contingency Reserve (5.0 percent) and the Children and Families Set-Aside (4.6 percent).

Cumulative Monthly Property Tax Collections Current Expense Levy, 2001-2006



PROPERTY TAX

Property taxes are collected through the countywide levy, the unincorporated area levy, the Emergency Medical Services levy, and voter approved debt. These receipts are dedicated to various funds within King County.

Property taxes are limited by both county policy and state law. Under Initiative 747, approved by Washington voters in 2001 (but rejected by a majority of King County voters), the regular levy can grow at only one percent annually, plus the increase in new construction. With inflation typically running two or three percent, this measure is gradually decreasing the effective tax paid by typical property owners, and reducing the dollars available for the current expense fund. Notwithstanding lower court rulings invalidating Initiative 747, King County awaits action by the State Supreme Court. The 2007 Executive Proposed Budget fully conforms with the requirements of Initiative 747.

The overall countywide levy is projected to rise to \$322.5 million in 2007, up from \$295.6 million in 2006.

¹⁵ The Automated Fingerprint Identification System (AFIS) levy was not collected in 2006, however, complicating direct comparison. Renewal of the AFIS levy by King County voters in September 2006 accounts for \$16.7 million of the 2007 increase. No AFIS levy was collected in 2006 since operational efficiencies from 2001-2005 levy proceeds permitted a one year extension of the program without further tax support.

The amount remaining for the current expense subfund is the total levy capacity less distributions for debt service, parks, river improvement, veterans, and other designations. Current expense revenues from the property tax levy are estimated at \$261.7 million. New construction of 2.43 percent accounts for the increase.

The unincorporated area levy (traditionally known as the road levy) is proposed at \$76.1 million for 2005.

SALES TAX

Sales taxes constitute Washington's largest revenue source, and King County's second largest source of tax receipts. A sales tax rate of 8.80 percent is assessed in the county, distributed as follows:

6.50 percent is collected by the state;

1.00 percent is a local option tax divided between cities and the county;¹⁶

0.80 percent is collected to support Metro Transit;¹⁷

0.40 percent is collected by the Regional Transit Authority (Sound Transit);¹⁸

0.10 percent is collected to support criminal justice programs.¹⁹

¹⁵ The countywide levy includes the current expense fund and dedicated millage for mental health/developmental disabilities, river improvement, human services, veterans' aid, intercounty, limited bond redemption, and voter approved lid-lifts.

¹⁶ Within cities, 0.15 percent is distributed to the county, and 0.85 percent to the city. King County receives the full 1.00 percent collected in unincorporated areas.

¹⁷ This tax was approved in April 2001 to replaced funds lost with the repeal of the Motor Vehicle Excise Tax by Initiative 695 in November 1999.

¹⁸ This tax is not collected in the rural part of King County where the sales tax rate is 8.40 percent.

¹⁹ 90 percent of these funds are allocated to the cities on the basis of population. King County receives a share based on unincorporated population, in addition to the remaining 10 percent. This tax was approved by county voters in 1992.

Sales Tax Forecast Detail							
	2001 Actuals	2002 Actuals	2003 Actuals	2004 Actuals	2005 Actuals	2006 Estimated	2007 Proposed
General Local Option							
Current Expense	64,237,486	62,258,958	61,813,620	65,636,330	70,525,713	74,686,730	78,197,006
Children and Family	3,268,722	3,168,044	3,145,383	3,339,902	3,588,698	3,800,431	3,979,051
Sales Tax Reserve	3,552,958	3,443,526	3,418,895	3,630,328	3,900,758	4,130,903	4,325,056
Total	71,059,166	68,870,529	67,648,329	68,653,007	78,015,169	82,618,064	86,501,113
Criminal Justice							
Total	10,958,675	10,485,286	10,453,816	11,041,397	11,812,263	12,450,125	13,016,606
Public Transportation							
Total	277,796,000	297,136,000	298,242,497	309,245,898	334,876,629	360,762,592	383,995,703

The sales tax is strongly influenced by changes in the economy and by the geographic areas from which it is collected. The public transportation and criminal justice funds receive revenues from countywide retail sales, with unincorporated areas constituting a little over four percent of the tax base. In contrast, over 17.6 percent of King County's general fund sales tax revenue is collected in unincorporated areas. Differences in the geographical composition of taxable retail sales also complicate analysis of revenue over the course of the business cycle. For example, the relative dominance of the construction sector in unincorporated King County makes the current expense subfund more sensitive to economic conditions than countywide taxes for transit and criminal justice.

Sales taxes place a disproportionate burden on lower income households. Over time, the inability to tax internet transactions and a general lag behind personal income growth will also prevent King County sales tax receipts from keeping pace with the cost of delivering most government services.

Purchases by King County residents from firms that do not operate in Washington are typically not subject to sales taxes. The rapid expansion of internet driven electronic commerce and Washington's high sales tax rates have provided a substantial incentive for consumer purchases over the internet to realize significant tax savings. A study published last July by researchers at the University of Tennessee has attempted to quantify the impact of internet and catalog sales on state and local sales taxes. The study concluded that roughly half a billion in state and local sales tax revenue was lost in Washington in 2003 due to remote purchases, forecasted to increase to \$1.1 billion in 2008. These projections have been built into the outyear sales tax forecast.

Total projected 2007 general fund sales tax revenue is \$99.5 million, an increase of 4.7 percent over estimated 2006 receipts. Of the total, \$4.0 million will be deposited in the children and family services subfund while \$4.3 million is earmarked for the sales tax reserve subfund, the proceeds of which are used to support major maintenance expenses. The remaining \$78.2 million is dedicated to the current expense subfund. These subfunds, along with the inmate welfare subfund, comprise King County's general fund.

REAL ESTATE EXCISE TAX

King County levies the Real Estate Excise Tax (REET) in unincorporated King County and administers state and city REET taxes throughout the county. Reflecting unprecedented low interest rates, real estate sales have been remarkably high in recent years. Tax collections have also been boosted in the last two years by three unusually large timber tract transactions. Reflecting the slowdown in construction and the decreased stimulus effect of low mortgage rates, high REET revenues will almost certainly decline in the coming year. REET consists of two 0.25 percent taxes on real estate transactions. Each is forecasted at just over \$7.5 million in 2007.

INTEREST EARNINGS

Because of high volatility, attributable to variance in both interest rates and county fund balances, the Office of Management and Budget continues to provide a conservative interest earnings forecast. Interest rates have been projected using futures prices on the New York and London markets and correlating them with historic pool earning performance. For 2007, a rate of return of 5.1 percent is assumed. This forecast will be revised

